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C O N F I D E N T I A L SECTION 01 OF 02 SANAA 001317

SIPDIS

STATE - PASS TO USTR/JASON BUNTIN. DOC - PASS TO
CHRISTOPHER JAMES AND TYLER HOFFMAN.

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SUBJECT: SHAKEDOWN AT THE ADEN PORT: SHIPS DETAINED BY
INSURANCE CLAIM SCAMS

Classified By: Ambassador Thomas C. Krajewski for reasons 1.4 b and d.

1. (C) Summary. Commercial maritime traffic to the Port of Aden, already far below the port's potential, may decrease further due to exaggerated insurance claims and an unusual practice of detaining ships in Yemen. Several worldwide insurance clubs have met in the last month to discuss these problems and are considering levying an additional premium of 25 to 30 percent on cargo shipments to Aden. Such a high premium will impede further what has been Aden's slow economic recovery since the 2000 USS Cole and 2002 V/M Limburg attacks. End Summary.

International Shipping Held Hostage in Aden

2. (C) Currently, the same ton of cargo shipped from London to Aden that costs 100 USD only costs 20 USD to ship to Dubai Port, although it is farther away. Already factored into the higher cost of using Aden Port are premiums for the perceived elevated security concerns and official corruption. Several Protection and Indemnity insurance "overclubs" are now considering adding a 25 to 30 percent premium for shipments to Aden Port due to exorbitant damage claims being filed by Yemeni companies against international shippers, and the Port Authority's practice of detaining ships in port pending a court decision or private settlement.

----- Corrupt Courts and Business Threat Viability of Aden Port -----

3. (SBU) The Aden commercial court is considered corrupt and ineffective. Yemeni shipping companies note that new cars, gifts and other bribes to the judge can help obtain a favorable judgment. Given the court's reputation for corruption, international companies will usually choose to settle privately. When the first insurance claim against damaged cargo was filed two years ago in Aden, the insurance company immediately paid a settlement. Other Yemeni companies caught on to this easy method of making money. Since then insurance claims have significantly increased, as a result, more and more ships are being detained in Aden Port.

4. (SBU) Examples of this insurance scam include the release of the Golden Rain (Chinese) only after a multimillion-dollar claim was settlement for 450,000 USD, and the detention of the Osman Meti (Turkish) until the insurer settled a multimillion-dollar claim for 2.25 million USD. Most ships are detained for a minimum of several weeks, although in 2004 a ship was held in port for seven months. This January, the Patera, an Italian cargo vessel carrying steel rebar from Turkey, was detained in Aden port due to an insurance claim of 10 million USD in damages to its cargo. Local Aden commercial contacts doubt that the actual damage of the Patera's cargo was even close to that figure. Patera's insurance club sent its attorney and surveyor, Mr. Les-Rice to Aden to negotiate with the Port Authority and the claimant. As of early May, Les-Rice and the insurance company agreed to pay 1 million USD to release the Patera from custody while they continue negotiations.

5. (SBU) Most of the exorbitant claims are made against shippers of rebar, steel, plywood, and timber. Rebar is sent to Yemen in what the industry calls "blue state", a tint acquired during production. When the rebar shipment is delivered in Aden, Yemeni companies file multimillion-dollar complaints for damage calling the tint "atmospheric rust." The insurance industry considers blue state rebar within the industrial standards of the United Kingdom and United States, and also holds that atmospheric rust does not damage the structural integrity of rebar. As regional exporters of steel and rebar, Turkish ships have been detained so often in Aden that the Turkish Embassy took the unusual step of denying visas to businesspeople from the most egregious Yemeni claimant companies.

6. (SBU) Comment. With oil revenues expected to decrease, and current tendering ROYG processes for both management of the Aden Port and Aden Container Terminal, corruption

threatens to dash hopes for an emerging maritime economy in Aden. In an industry where revenue and cost are counted in terms of time and dollars saved per ton and container, an additional 25 or 30 percent shipping insurance premium will deter shipping from using Aden Port and the loser will be Yemen's struggling economy. End Comment.
Krajeski